

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 905 - HB 1405

March 18, 2021

SUMMARY OF BILL: Expands and restructures the agricultural sales and use tax exemptions under Tenn. Code Ann. § 67-6-207. Increases, from \$1,000 to \$1,500, the minimum value of agricultural products produced and sold during the year, including payments from government sources, for which farmers and nurserymen may receive a sales and use tax exemption certificate. Establishes that anything exempt prior to January 1, 2021 will remain tax exempt.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact –

Exceeds \$2,840,800/FY21-22 and Subsequent Years

Decrease Local Revenue – Net Impact –

Exceeds \$1,159,300/FY21-22 and Subsequent Years

Assumptions:

- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Based on information from the United State Department of Agriculture (USDA) and the Department of Revenue (DOR), an estimated 3,035 farms produce and sell between \$1,000 and \$1,500 of agricultural products each year, spending on average \$1,250 per year. Such farms will no longer be eligible for the sales tax exemption under the proposed legislation, due to the legislation increasing the minimum value of agricultural products produced from \$1,000 to \$1,500.
- The estimated taxable sales no longer exempt is \$3,793,750 (3,035 x \$1,250).
- The increase in state revenue is \$255,957 $[(\$3,793,750 \times 7.0\%) - (\$3,793,750 \times 7.0\% \times 3.617\%)]$.
- The increase in local revenue is \$104,449 $[(\$3,793,750 \times 2.5\%) + (\$3,793,750 \times 7.0\% \times 3.617\%)]$.
- It is further estimated that at least \$48,000,000 of total taxable expenditures would be exempt as a result of the proposed legislation.
- The recurring decrease in state revenue will exceed \$3,238,469 $[(\$48,000,000 \times 7.0\%) - (\$48,000,000 \times 7.0\% \times 3.617\%)]$.

- The decrease in local revenue will exceed \$1,321,531 [$(\$48,000,000 \times 2.5\%) + (\$48,000,000 \times 7.0\% \times 3.617\%)$].
- The net decrease in state revenue is estimated to exceed \$2,982,512 (\$3,238,469 - \$255,957).
- The net decrease in local revenue is estimated to exceed \$1,217,082 (\$1,321,531 - \$104,449).
- Fifty percent of tax savings, or \$2,099,797 [$(\$2,982,512 + \$1,217,082) \times 50\%$] will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$141,669 [$(\$2,099,797 \times 7.0\%) - (\$2,099,797 \times 7.0\% \times 3.617\%)$].
- The recurring increase in local revenue is estimated to be \$57,811 [$(\$2,099,797 \times 2.5\%) + (\$2,099,797 \times 7.0\% \times 3.617\%)$].
- The total net recurring decrease in state revenue is estimated to exceed \$2,840,843 (\$2,982,512 - \$141,669).
- The total net recurring decrease in local revenue is estimated to exceed \$1,159,271 (\$1,217,082 - \$57,811).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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